BRITISH COLUMBIA FERRY CORPORATION

1999/2000 ANNUAL REPORT

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The Honourable Garde B. Gardom
Lieutenant-Governor of the Province of British Columbia

May it please your honour,

I respectfully submit herewith the Annual Report of the British Columbia Ferry Corporation for the fiscal year ended March 31, 2000, in compliance with the provisions of the Ferry Corporation Act.

Joy MacPhail
Minister of Labour and
Minister Responsible for the British Columbia Ferry Corporation

Mission

At BC Ferries we are committed to satisfying customer and community needs for a safe, reliable and sustainable ferry service.

We strive to build on our tradition of excellence in ferry service, one in which employees and citizens take great pride.

Nicola: Vancouver 1960
33.53m • 255 Gross Tons
16 Cars/129 Passengers

Mill Bay: Victoria 1956
36.58 m • 174.89 Gross Tons
16 Cars/134 Passengers

Quinitsa: Vancouver 1977
74.52m • 1,107 Gross Tons
50 Cars/394 Passengers

North Island Princess: Vancouver 1958
61.04m • 841 Gross Tons
49 Cars/293 Passengers

Queen of Tsawwassen: Vancouver 1960
102.51m • 3,127 Gross Tons
138 Cars/989 Passengers

Queen of Cumberland: Vancouver 1992
96.00m • 2,855 Gross Tons
127 Cars/450 Passengers

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Queen of Nanaimo: Victoria 1964
129.97m • 4,938 Gross Tons
192 Cars/1,315 Passengers

Queen of Oak Bay: Victoria 1981
139.29m • 6,968 Gross Tons
362 Cars/1,466 Passengers

Corporate Profile

The British Columbia Ferry Corporation, a Crown corporation of the Government of British Columbia, began operations on January 1, 1977.

The ferry system that is now operated by the British Columbia Ferry Corporation was started in 1960, when the provincial government initiated regularly scheduled ferry service between the Lower Mainland and Vancouver Island with two vessels and 225 employees. Today, the fleet consists of 40 vessels. The system, which is operated as a single corporate entity, includes 43 marine terminals plus seven other sites, and encompasses 26 routes. High operational and maintenance standards make this one of the world's finest ferry systems.

The corporation owns two fast ferries and has contracted for the completion of a third. All three vessels have been put up for sale.

During the 1999/2000 fiscal year, BC Ferries carried 21.4 million passengers and 7.9 million vehicles. The system generated $378 million in revenue, employing $694 million in capital assets.

BC Ferries is an integral part of British Columbia's coastal transportation system, linking many isolated coastal communities to either Vancouver Island or the mainland. The Corporation also provides service from Prince Rupert, on the province's north coast, to the Queen Charlotte Islands (Haida Gwaii), and to Port Hardy on the northern end of Vancouver Island. In addition, the Discovery Coast Passage offers summer service between Port Hardy and Bella Coola on the central coast, with numerous ports of call in between.

BC Ferries' workforce consists of unionized and management employees. All unionized employees are members of the British Columbia Ferry and Marine Workers' Union. The permanent workforce numbers approximately 2,800, and is augmented by approximately 1,800 casual workers.

Catamaran Ferries International Inc. (CFI), a wholly-owned subsidiary of the Corporation, began operations on April 1, 1996, for the purposes of constructing fast ferries for the Corporation and developing the related technology for application in the domestic and international markets. The financial statements of both entities are consolidated in this annual report.

CHAIR'S

THE 1999/2000 FISCAL YEAR WAS ONE OF profound change in the British Columbia Ferry Corporation. When the Board of Directors was appointed in March 1999, it faced major issues demanding resolution —issues concerning financial stability, the PacifiCat program, and capital renewal of the fleet. Through the hard work of the people within BC Ferries and the co-operation of the provincial government, many of these issues are on their way to being resolved.

The primary goal this year for BC Ferries was financial stability. This was achieved in March 2000 with the government's agreement to forgive the corporation's outstanding debt of $1.1 billion, which the corporation did not have the ability to fund. In addition to rescinding the debt, the government renewed its commitment to supporting the corporation through a subsidy based on a permanent allocation of motor fuel tax revenues.

At the end of last year, BC Ferries was constructing three PacifiCat catamaran fast ferries; by mid-2000 all three will be complete. However, BC Ferries and the government together have concluded that these vessels do not fit the corporation's service requirements, and have made the decision to put all three vessels up for sale. The accounting implications of this decision are fully disclosed in the financial statements in this report, and are discussed elsewhere in the report. There is no question that this significantly changes the direction that BC Ferries had been pursuing over the last five years; there is also no question that it was a direction that was unaffordable for the corporation.

Over the course of the year, BC Ferries redeveloped its capital renewal program, to ensure that the ferry system can continue to operate its services dependably and efficiently. Financial resources and people are required to make the system work, and it is BC Ferries' responsibility to make sure that the right people are in place and the money is made available to renew and maintain the system and keep it operational. While it was a year of change for BC Ferries, the corporation has now established a sound financial footing.

I was appointed Chair of the Board of Directors in March 1999, along with a group of directors with broad backgrounds and diverse experience. On behalf of the board, I want to express my appreciation for the assistance of the many capable and effective managers of BC Ferries, who have taken up the challenges we collectively face with determination and skill.

Michael Francis
CHAIR

Tenaka: Victoria 1964
47.09m • 651.00 Gross Tons
30 Cars/244 Passengers

Dogwood Princess II: Victoria 1979
12.80m • 21 Gross Tons
38 Passengers

Queen of Sidney: Victoria 1960
102.51m • 3,127 Gross Tons
138 Cars/989 Passengers

Queen of Capilano: Vancouver 1991
96.00m • 2,855 Gross Tons
85 Cars/450 Passengers

PRESIDENT'S

THE BRITISH COLUMBIA FERRY CORPORATION has a long and proud history as the province's marine transportation link and lifeline to the West Coast. Founded in 1960, BC Ferries now operates the fifth largest ferry system in the world, and provides a level of service and quality that compares well with operators worldwide. BC Ferries is a major economic player in British Columbia's coastal economy. It has 4,600 employees, assets with a replacement value of $3.5 billion, and annual toll revenues of almost $300 million. It is also one of the largest restaurant operators in British Columbia.

BC Ferries has highly skilled employees whose commitment to safety and customer service have sustained the corporation through some very difficult times, particularly over this past year. Their dedication to customer service and the safe transport of tens of thousands of people every day has remained a constant strength. To all those employees, I would like to express my thanks.

Of the many complex issues that needed to be addressed in the 1999/2000 fiscal year, the most immediate was the corporation's financial health. Since 1997, BC Ferries had been reporting a negative shareholders' equity and had been borrowing to cover the cash shortfall in its operations. The amounts borrowed were $15 million in 1997/98 and $16 million in 1998/99. Significant measures were needed to put BC Ferries on sound financial footing and to ensure its future viability.

BC Ferries required a new capital plan, and improved budget processes and financial systems. In addition, the organizational structure needed to be revamped.

Under the new financial leadership of Rob Clarke, Vice President of Finance and Corporate Services, the corporation has undertaken a comprehensive and in-depth restructuring of its financial management functions. The restructuring began with a substantial overhaul of BC Ferries and its budgeting process. This work was undertaken at a grassroots level—ship by ship, terminal by terminal, and account by account—until a comprehensive operating budget review was completed.

A downsizing initiative was implemented in the fall of 1999; it will equate to $5 million annually, beginning with the 2000/01 fiscal year.

Problems with the introduction of the PacifiCat service on the Horseshoe Bay–Nanaimo route led to a decision in January 2000 to continue conventional vessel service on the route. These problems involved dependability—typical of the introduction of any new vessel—and customer concerns arising from the vessels' limited capacity for large vehicles such as trucks, buses and recreational vehicles. The PacifiCats are good ships. They are as well constructed as any large aluminum ferry in the world, which is a major accomplishment for all those involved. However, they do not fit BC Ferries' service requirements.

The larger dilemma faced by the provincial government, however, was how to put BC Ferries on an even financial keel so that the service could be sustained. The solution chosen by the government and announced on March 13 was a $1.1 billion debt removal and the dedication of a permanent annual subsidy of 1.25 cents per litre from the motor fuel tax, which will provide BC Ferries with about $72 million in 2000/01. In addition, the government and BC Ferries announced that the three PacifiCat fast ferries would be put up for sale and the operations of Catamaran Ferries International, BC Ferries' wholly owned subsidiary, would be concluded.

These actions provided BC Ferries with a new financial framework that allows both service and fare stability and security for the coastal communities that depend on the ferries. More importantly, the framework promotes accountability for the planning and operating of the corporation. The framework has also enabled BC Ferries to better match income received from fares and subsidy with expenditures, and provides a realistic framework within which to plan for capital requirements over the long term and to ensure that these capital expenditures can be supported by the corporation's revenues.

The corporation has been without a collective agreement with its unionized employees since October 1998. A new collective agreement must be achieved to ensure stability for both our customers and our employees. Despite the assistance of a special mediator appointed under the Labour Relations Code, the union has failed to ratify a new collective agreement. It is my belief that the corporation, its employees and its customers need stability, not uncertainty. To that end, new management

changes include the appointment of Derek Johnston, Vice President of Human Resources. Derek will focus on improving union/management relations and developing the human resources role within the corporation to support staff in their respective duties.

BC Ferries has completed a performance plan for the 2000/01 fiscal year that documents the business initiatives and financial performance of the corporation as it continues to resolve past problems and develop a comprehensive, longer-range business plan for the future. Long-range planning is essential for a company whose major assets and infrastructure take five to seven years to plan, design and construct. It is critically important that this planning be undertaken with a clear understanding of BC Ferries' relationship to the coastal economies it serves, and that its services fit with the development of these economies.

BC Ferries' operations are large and complex, and while considerable progress has been made this year, additional work is needed to operate the corporation more efficiently and improve integration with other transportation providers. This work has begun and will continue over the course of 2000/01, with a focus on several major areas, including improved financial performance, advanced environmental and safety initiatives, and customer service improvements.

With the continued support of the government, the Minister, the Board of Directors and BC Ferries' employees, I am confident that the corporation will continue to meet, and even exceed, the expectations of our shareholders and our customers.

Bob Lingwood
President and Chief Executive Officer

Celebrating BC Ferries' 40th Anniversary

In 2000, BC Ferries is celebrating 40 years of proud maritime history. On June 15, 1960, British Columbia's fledgling ferry system consisted of one route with two vessels, two terminals and 225 employees. Today, BC Ferries is the fifth largest ferry system in the world, with 4,600 employees and more than 40 ships serving up to 46 ports on 26 routes. The 40th anniversary is a time to acknowledge the men and women who have served the travelling public for the last four decades, and to celebrate the customers and communities we serve.

In 1999/2000, BC Ferries carried more than 21.4 million passengers and nearly 7.9 million vehicles. Travellers throughout British Columbia and from around the world depend on the safe and regular passage provided by BC Ferries. Whether passengers are commuting, vacationing or making a trip to the doctor, BC Ferries provides a vital service for communities that rely on British Columbia's marine highway system. In addition, BC Ferries has played an increasing role in the economic performance of coastal British Columbia and has become an important transportation link for local communities.

BC Ferries' employees have planned several events to give the public a chance to participate and commemorate this special year. On June 15, 2000, the birthday celebrations kick off with cake-cutting and employee-led community events that will unfold over the days following.

YEAR IN REVIEW

ON APRIL 1, 1999 THE BRITISH COLUMBIA FERRY CORPORATION'S DEBT stood at $933 million. In 1998/99, BC Ferries had posted a $114 million net loss and needed to borrow to cover the cash shortfall in its operations. Without immediate remedial measures, the debt burden alone would have resulted in financing costs totalling $67 million by the 2000/2001 fiscal year. Technically, the British Columbia Ferry Corporation was bankrupt.

Three other major issues impaired BC Ferries' ability to responsibly provide cost-effective marine transportation in British Columbia: the lack of a financial framework, difficulties with the fast ferry program, and aging assets.

A NEW FINANCIAL FRAMEWORK

On September 15, 1999, BC Ferries announced overhead reductions to save $5 million annually. This action involved the elimination of 65 non-fleet management and administration positions, implementation of an improved organizational structure, and development of a comprehensive capital plan.

In March 2000, the provincial government announced a financial restructuring package for BC Ferries that would provide stability for coastal communities, in terms of both service and tariff. Designed to place BC Ferries in a break-even position, the restructuring included removal of a $1.1 billion debt, and a permanent annual subsidy of 1.25 cents per litre from the motor fuel tax, which will provide BC Ferries with about $72 million in 2000/01. The March 2000 announcement reflected the government's commitment to providing BC Ferries with an adequate annual subsidy through the motor fuel tax allocation.

SALE OF THE PACIFICATS

On January 12, 2000, BC Ferries' President and CEO Bob Lingwood announced that a conventional ferry would replace one of the two PacifiCats providing service between Horseshoe Bay and Nanaimo, effective February 1, 2000. Subsequently, work was done to determine the suitability of the vessels for use within the BC Ferries system. On March 13, 2000 the government and BC Ferries announced that the three PacifiCat vessels would be put up for sale.

Financial analysis showed that the annual operating costs of three PacifiCats between Horseshoe Bay and Nanaimo would be approximately $11 million higher than costs associated with the conventional vessel service on the route. In addition, most charter buses, heavy commercial and longer recreational vehicle traffic could not be accommodated by the PacifiCats because of weight restrictions. In order to accommodate commercial traffic diverted from the Horseshoe Bay–Nanaimo route, BC Ferries would need to provide additional service on the Duke Point–Tsawwassen route, at an additional annual cost of approximately $7.5 million.

BC Ferries also recognized that the planned 65-minute crossing could not be achieved. At this speed the vessels were not providing the premium service anticipated. Furthermore, the PacifiCats could not make the six round-trip crossings per day required to provide the capacity required for the route without significant additional cost.

The corporation reviewed opportunities to use the vessels on other BC Ferries routes, and the analysis indicated that the value of the PacifiCats on the second-hand market likely exceeded their value to BC Ferries as part of its fleet.

Through a request for proposal, BC Ferries has subsequently enlisted the expertise of an internationally recognized firm with demonstrated success in the sale of large capital assets, to ensure that the best possible price is received for the vessels.

BC Ferries will continue to operate the PacifiCats on a supplementary and rotational basis in order to prove their reliability and showcase their value to potential buyers. In the meantime, operational and customer service issues will be addressed.

Divestiture of the assets of Catamaran Ferries International

Catamaran Ferries International (CFI) was incorporated in March 1996 as a wholly owned subsidiary of the British Columbia Ferry Corporation. The purpose of CFI was to manage the construction of three fast ferries and revitalize British Columbia's shipbuilding industry by introducing new technology.

It was always the government's intention to divest itself of CFI when the third PacifiCat was finished. BC Ferries' Board of Directors reviewed a variety of options, including selling CFI to a private-sector buyer, establishing a stand-alone shipyard, and disposing of CFI's assets. Costs and benefits associated with each scenario were considered, as was the fact that the primary competitors in the international fast ferry market today are supported by direct government subsidy. The board therefore measured the estimated ongoing subsidy required to enable a private operator to be competitive with an acceptable allowance for profit.

The board's final recommendation was to sell CFI's assets, as this was determined to be the most cost-effective solution, and one that did not require ongoing provincial subsidies.

Capital Plan

The ferry service was built up rapidly during the early 1960s and, since ferries generally have an expected lifespan of about 40 years, many of the corporation's original assets were nearing the end of their economically useful lives. There were concerns that major capital expenditures would be required over the next five years.

In the 1999/2000 fiscal year, BC Ferries undertook the first comprehensive, bottom-up review of its capital assets in many years. Over the course of about 10 months, the corporation completed detailed surveys of all terminals and docks, and 24 of its oldest vessels (25 years and older) to determine their condition, the estimated cost of keeping them operational for another 10 years, and the feasibility of replacing them. The surveys revealed that many of the assets are in better condition than expected, as a result of sound initial construction and a thorough maintenance program over the years. In most cases, it is cost-effective to invest in further upkeep and life extension. There are some exceptions, however: Queen of Victoria (built in 1962) is currently up for sale and Queen of Sidney (built in 1960) will be put on the market later in 2000/01.

Capital planning is more than just examining the decision to repair or replace assets. In order for BC Ferries to continue to meet the needs of its customers and the communities it serves, it was also crucial for BC Ferries to look at anticipated market growth and changing expectations. This was accomplished through a series of regional service studies, which in many cases began with input from stakeholder groups and incorporated the results of customer surveys.

The capital review also included a detailed service and capital analysis of the major routes connecting Vancouver Island to the Mainland, and the northern Sunshine Coast, southern Gulf Islands, Bowen Island, Brentwood–Mill Bay, and northern routes. The analysis built on work that was previously done in association with regional stakeholder committees.

In addition, a separate analysis of on-board passenger facilities, life-saving equipment and sewage treatment facilities was completed.

The new capital plan identifies more than 200 individual capital projects that sustain or enhance the existing asset base, for an estimated capital expenditure of $394 million over the five-year term of the plan. Major projects and programs in the first year of the plan include:

reacquisition of the former Queen of Burnaby from Victoria Line

a new 110-car ferry suitable for smaller routes

a sewage treatment improvement program, including installation in the coming year of new sewage treatment plants on two vessels (Queen of Saanich and Howe Sound Queen)

marine structure replacements or upgrades at Horseshoe Bay, Departure Bay, Powell River, Comox, Earls Cove and Long Harbour

extensive terminal and vessel sustainability projects, including upgrades to life-saving equipment and passenger facilities.

Projects identified for years two to five of the capital plan are subject to business case analysis, which will be conducted to weigh alternatives and determine financial and operational requirements. The capital plan is therefore a rolling plan that will be updated each year before any of the projects are submitted to Treasury Board for consideration.

The capital investment strategy adopted by BC Ferries places the corporation in the best overall financial situation, while providing time to prepare a longer-range replacement strategy. It should be emphasized that the corporation's major ships must be replaced. This will occur over the longer term. Plans for retiring older vessels are fairly concrete over the next five years, and two new vessels have been identified to support the retirement of the oldest vessels in the fleet. While retirement dates for vessels in subsequent years are tentative, a schedule has been developed to support future planning efforts. According to the schedule, the first major new vessel will be needed by 2006. This will be a replacement vessel for Queen of Vancouver, which currently operates on the route between Tsawwassen and Swartz Bay.

BC Ferries is beginning to consult with members of the ship construction industry now to ensure enough lead time for major construction projects for both the corporation and the industry.

Queen of Burnaby: Victoria 1964
129.97m • 4,938 Gross Tons
192 Cars/1,318 Passengers

Howe Sound Queen: Quebec 1964
73.46m • 855 Gross Tons
70 Cars/330 Passengers

Queen of Vancouver: Vancouver 1962
129.92m • 9,387 Gross Tons
338 Cars/1,360 Passengers

Queen of Saanich: Victoria 1965
129.92m • 4,903 Gross Tons
338 Cars/1,369 Passengers

TARIFF COMPARISONS BC FERRIES AND OTHER CARRIERS*

Operator Route	Minimum Journey Time	Minimum Adult Fare	Minimum Car & Driver Fare	Comments
BC Ferries				
Horseshoe Bay–Nanaimo	1 hr, 35 min	$7.50	$30.25	2000 low
		$9.00	$41.00	2000 peak
Tsawwassen–Swartz Bay	1 hr, 35 min	$7.50	$30.25	2000 low
		$9.00	$41.00	2000 peak
Nanaimo–Tsawwassen	2 hrs	$7.50	$30.25	2000 low
		$9.00	$41.00	2000 peak
Bay Ferries				
Saint John, NB–Digby, NS	2 hrs, 45 min	$25.00	$80.00	2000 low
		$30.00	$90.00	2000 peak
Yarmouth, NS–Bar Harbour, ME	7hrs	$67.50	$172.50	2000 low
		$82.50	$202.50	2000 peak
Wood Islands, PEI–Caribou, NS	1hr, 15 min	$5.50	$24.50	2000
Black Ball Transport Inc.				
Port Angeles, WA–Victoria, BC	1 hr, 35 min	$10.50	$43.50	2000
Interislander				
Wellington–Picton, NZ	3 hrs	$31.30	$143.50	2000
Marine Atlantic				
North Sydney, NS–Argentia, NF	14 hrs	$55.00	$179.00	2000
North Sydney, NS–Port aux Basques, NF	6 hrs 30 min	$20.00	$82.00	2000
Owen Sound Transportation Co.				
Tobermory–South Baymouth, ON	1 hr, 45 min	$11.20	$35.70	2000
Sea France				
Dover, UK–Calais, FR	1 hr, 15 min	$33.00	$257.40	2000 low
		$33.00	$356.40	2000 peak
Société des traversiers du Québec				
Rivière-du-Loup–St. Simeon, PQ	1hr, 5min	$10.40	$36.80	2000
Matane–Baie-Comeau–Godbout, PQ	2 hrs, 15 min	$11.85	$40.20	2000
Steamship Authority				
Hyannis–Nantucket, MA	2 hrs, 15 min	$18.75	$164.25	2000 low
		$18.75	$255.75	2000 peak
Washington State Ferries				
Anacortes, WA–Sidney, BC	2 hrs, 50 min	$13.65	$37.15	2000 low
		$13.65	$61.50	2000 peak
Seattle–Bremerton, WA	20 min	$2.80	$9.75	2000 low
		$2.80	$12.40	2000 peak

*All fares quoted in Canadian dollars. All fares for one-way voyage.

PUBLIC

PUBLIC CONSULTATION IS AN IMPORTANT ASPECT OF THE PLANNING and operation of BC Ferries' services, especially those involving ferry-dependent communities. BC Ferries recognizes that its services are tremendously important to people who live, visit or conduct business in the coastal regions. Listening and responding to the suggestions and concerns of these travellers is therefore crucial to ensuring a quality transportation service.

For most of its 40 years, BC Ferries operated without formal public or community consultation processes. In 1993, however, BC Ferries made a serious commitment to giving ferry dependent communities opportunities to provide input into decisions about ferry service, and to change its organization and practices to reflect that commitment. A public consultation process was initiated to assist BC Ferries in meeting the service needs of customers and communities within its financial parameters.

BC Ferries currently works with 12 public consultation groups, which include local resident committees, to exchange information on the day-to-day operation of specific routes. In addition, the Coastal Council to BC Ferries, an independent group established in 1998, advises the corporation on major policy issues affecting ferry users. The council is part of a broader consultative process involving representatives of the public consultation groups, as well as chambers of commerce and Tourism BC. The role of the council is to represent the views and concerns of ferry-dependent communities, promote multi-party dialogue, and make recommendations to BC Ferries.

Regional public consultation has confirmed the importance of a dialogue between BC Ferries and customer groups about the challenge of balancing key—and often competing—factors: the needs and values of ferry-dependent communities, fiscal responsibility to the taxpayers of British Columbia, and the operational requirements of BC Ferries.

Changes made by BC Ferries this year to improve its financial and business planning, improve its management structure and redefine its mandate have had a positive impact on relationships between BC Ferries and the consultation groups. However, it is also clear that that in order to move forward, BC Ferries must update its consultation practices to ensure

TARIFF EQUITY REVIEW

Over the past 40 years, BC Ferries' tariff structure has become increasingly complex, yet has never been subject to a rational approach across the corporation's many routes and services. This has given rise to many inconsistencies, leading to questions about equity for both customers and the corporation.

Late in the 1999/2000 fiscal year, and for the first time in many years, BC Ferries began a comprehensive review of tariff equity. With the new financial framework in place, it will be a top priority for the corporation to determine how the tariff is structured and identify guidelines for rationalizing the fare structure and improving tariff equity. Key stakeholders, including the Coastal Council to BC Ferries, local municipalities, tourism associations, chambers of commerce, and transportation agencies, will be consulted. The public will also have the opportunity to provide input. The tariff review is expected to be completed by July 2000 and BC Ferries will share the results of this process with stakeholders and the general public.

Queen of the North: Germany 1969
124.99m • 8,806 Gross Tons
157 Cars/800 Passengers

Queen of Cowichan: Victoria 1976
139.29m • 6,551 Gross Tons
362 Cars/1,466 Passengers

that they are responsive, relevant and cost-effective. In addition, many agencies and organizations that depend on the ferry service—such as local governments, other transportation agencies, tourism organizations, and customer groups like the BC Trucking Association—do not have an official forum for exchanging information or presenting their interests or concerns.

In December 1999, BC Ferries enlisted the expertise of three consultants specializing in public consultation, transportation and government to assess the effectiveness of the public consultation process and recommend improvements. As part of this consultation review, BC Ferries must determine how to best identify the broadest range of people affected by its operations and create opportunities to inform and involve them.

Queen of New Westminster:
Victoria 1964 • 129.96m • 8,706 Gross Tons
286 Cars/1,341 Passengers

Queen of Chilliwack: Norway 1978
114.58m • 8,618 Gross Tons
115 Cars/389 Passengers

Branded Partnerships

In early July 1999, BC Ferries and White Spot began a trial partnership, bringing White Spot Triple O burgers and french fries on-board the Spirit-class vessels. BC Ferries chose White Spot because it is a British Columbia business with a strong regional identity and a longstanding commitment to excellence. The partnership has increased on-board hamburger sales by 60 per cent.

Queen of Prince Rupert: Victoria 1966
101.15 m • 5,844 Gross Tons
80 Cars/804 Passengers

Powell River Queen: Victoria 1965
84.96 m • 1,486 Gross Tons
70 Cars/394 Passengers

Showcasing British Columbia Books

BC Ferries and the Association of Book Publishers of British Columbia work in partnership to ensure that the British Columbia book section of the gift shops profiles and showcases the province's authors and publishers. The books sold in the gift shops cover a wide range of interests, from nature to fiction. Co-op marketing strategies are planned in tandem, including on-board advertising signage, bookmarks, and author book signings. BC Ferries supports the initiative to profile this unique cultural aspect of the province.

BUSINESS

BC FERRIES PLACED INCREASED EMPHASIS IN 1999/2000 ON ITS business development activities, which are aimed at increasing revenue for BC Ferries, increasing tourism activity for the province, and improving customer satisfaction. Important business development activities this year have included the establishment of new business relationships with other transportation and tourism providers, and improving the services and amenities available for customers.

The creation of a Marketing and Business Development division in 1998 has resulted in a number of initiatives aimed directly at increasing British Columbia's share of international tourism and stimulating travel throughout coastal British Columbia.

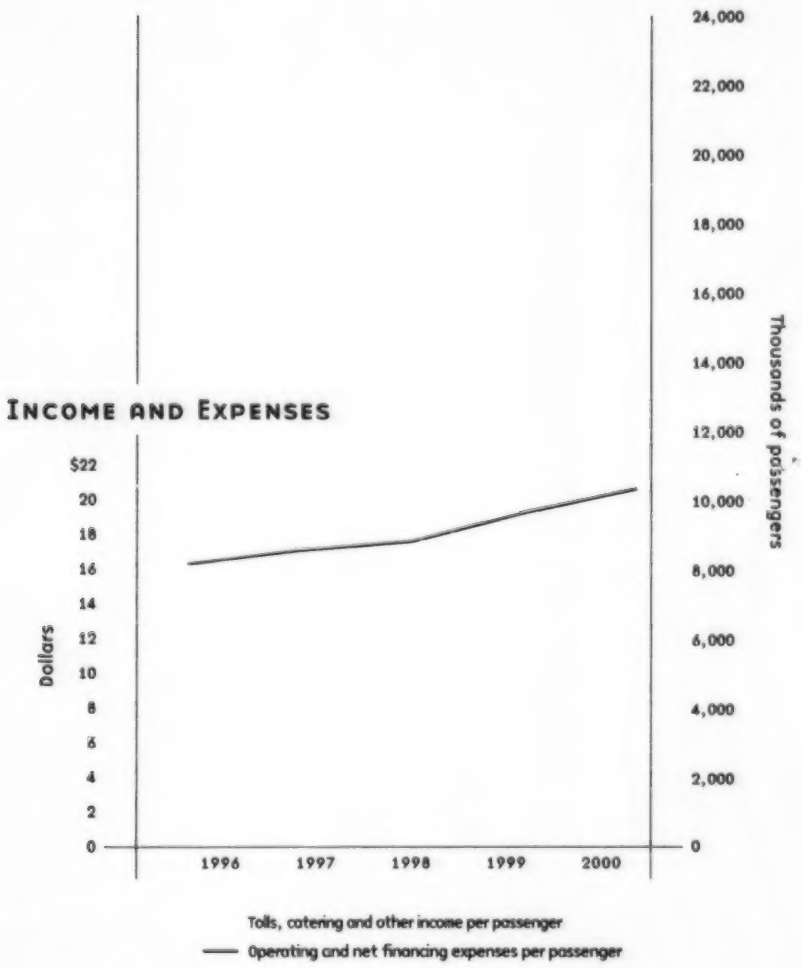
Consumer travel packages with such partners as Tourism Victoria, BC Rail, Gray Line Vacations, WestJet and Signature Vacations have resulted in increased annual sales. In addition, BC Ferries has implemented a northern partnership program with Tourism BC and participating hotels to generate more revenue on the northern routes and assist in the achievement of provincial tourism goals.

The division has a mandate to assist in moving BC Ferries toward long-term financial sustainability by expanding core business revenues and developing new revenue opportunities. In this respect, 1999/2000 has been an important year, as the results of corporate sponsorship agreements initiated in 1998 with Coca-Cola, BC Ferries' official cold beverage supplier, and AGFA, official supplier of film and film products, both resulted in significant increases in non-tariff revenues.

Another key development this year was the introduction of branded partnerships to the business of ferry travel, with the launch of a trial with White Spot Restaurants on the Spirit-class vessels. In just over six months, the partnership has increased on-board hamburger sales by approximately 60 per cent.

Marketing and Business Development continues to seek ways of improving on-board revenues through vessel design, merchandising and the possible introduction of more branded partners. The terminal marketplaces will be given a fresh new look to expose customers to more British Columbia arts and crafts. In addition, plans are underway to enhance the profile of the fleet in the travel and tourism industry—both in North America and overseas—through travel packaging and promotional opportunities.

Passengers Carried



GOVERNANCE AND

THE FINANCIAL RESTRUCTURING ANNOUNCED BY THE PROVINCIAL government in March 2000 resolved some of the problems that had developed for BC Ferries over the past several years. However, it is essential to the future health of the ferry system that the corporation have the means to manage its assets and operations within the mandate it has been given and the financial resources available.

The government, Board of Directors and executive management have put considerable effort this year into developing governance structures to ensure responsibility and accountability. In this work the corporation has taken into consideration the recommendations of the province's Auditor General contained in the review of the fast ferry project (which was subtitled "Governance and Risk Management"), as well as recommendations from the report of the Budget Process Review Panel (the "Enns Report").

The Auditor General's report on the fast ferry project identified a variety of issues and made three general recommendations:

> governance—that the province commit to putting the principles and practices of good governance in place for its Crown corporations, including specifically allowing Crown corporation boards to function effectively within their mandates
>
> project management—that the province require that proven project management practices be used on all significant capital projects
>
> the framework of expectations for BC Ferries—that the province give BC Ferries clear, integrated, consistent and long-term direction on its performance expectations, and then hold BC Ferries' board and, through it, management responsible for meeting those expectations.

The project management recommendation has been implemented in the ongoing projects necessitated by BC Ferries' needs, and the Board of Directors will continue to monitor the way management initiates and manages projects.

Queen of Esquimalt: Victoria 1963
129.92m • 9,304 Gross Tons
376 Cars/1,360 Passengers

Bowen Queen: Victoria 1965
84.96 m • 1,475 Gross Tons
70 Cars/394 Passengers

Nayne Queen: Victoria 1965
84.96 m • 1,475 Gross Tons
70 Cars/394 Passengers

Quinsam: Vancouver 1982
86.85m • 1,487 Gross Tons
70 Cars/394 Passengers

Queen of Surrey: Vancouver 1981
139.29m • 6,968 Gross Tons
362 Cars/1,466 Passengers

Queen of Alberni: Vancouver 1976
139.29m • 5,863 Gross Tons
295 Cars/1,170 Passengers

Queen of Coquitlam: Vancouver 1976
139.29m • 6,851 Gross Tons
362 Cars/1,466 Passengers

Spirit of Vancouver Island: Victoria 1994
167.57m • 18,747 Gross Tons
470 Cars/2,100 Passengers

The determination of new governance structures requires action by both the government and the corporation. BC Ferries undertook a governance review in mid-1999 and solidified the board's expectations of the corporation's management. The corporation, in co-operation with the government, reviewed its overall governance in the last quarter of the 1999/2000 fiscal year. BC Ferries continues to work with the government to address the remaining governance issues raised by the Auditor General.

The Enns Report arrived at several conclusions that touch on the governance of Crown corporations such as BC Ferries. BC Ferries is implementing the specific recommendations of the Enns Report, within the context of overall government practice:

> BC Ferries will prepare an annual three-year business plan, and will report on results annually. In addition, there will be some summary accountability for results information included in budget documents and reporting documents. The three-year business plan will focus on accountability for results by including mission, vision, strategic direction, objectives, performance indicators and expected results (performance targets). Given the amount of time required to fully implement these changes, BC Ferries published in March 2000 a one-year performance plan for 2000/01. This will evolve in future years into a three-year business plan, with defined objectives, performance indicators and performance targets.
>
> Annual reports will compare actual results for the year to the year's business plan. (This annual report contains the reporting that is currently available with the systems that are in place. BC Ferries recognizes the obligation it has to report on its operations, and will continue to improve its reporting capability.)

Good governance requires constant vigilance, to ensure that the systems and practices that are in place continue to address the challenges of the changing business environment.

FIVE-YEAR TRENDS (Note 1)

	2000	1999	1998	1997	1996
KEY INDICATORS					
Tolls, catering and other income per passenger	$16.65	$16.51	$16.02	$14.69	$14.82
Operating and net financing expenses per passenger	$20.61	$19.37	$17.85	$17.16	$16.33
Percentage of operating and net financing expenses recovered from tolls, catering and other income	80.8%	85.2%	89.8%	85.6%	90.7%
Cash flow/debt service ratio	0.50	0.59	0.45	0.26	0.58
Return on assets	-43.1%	-13.0%	-7.3%	-10.2%	-6.3%
Full-time equivalent employees (Note 2)	3,390	3,389	3,374	3,292	3,272
OPERATIONS (figures in thousands)					
Passengers carried	21,381	21,379	21,799	22,269	22,512
Passenger miles travelled	408,465	406,482	416,639	428,409	433,901
Utilization—passengers	31%	30%	30%	31%	31%
Vehicles carried	7,884	7,815	7,985	8,163	8,304
AEQs carried (Note 3)	8,668	8,579	8,779	8,910	9,053
AEQ miles travelled	155,957	154,587	159,322	162,678	165,750
Utilization—AEQs	54%	52%	53%	53%	53%
FINANCIAL (figures in $ thousands)					
Tolls, catering and other income	$355,890	$352,946	$349,206	$327,073	$333,642
Government contracts, grants and motor fuel tax	87,063	46,040	26,631	26,500	30,674
Operating and net financing expenses (Note 4)	440,676	414,141	389,046	382,055	367,723
Cash flow from operating activities	(22,925)	(7,169)	(12,383)	(19,451)	(11,698)
Net additions to capital assets	114,590	166,602	128,187	135,856	60,251
Total assets	693,954	875,797	806,449	749,474	630,010
Proceeds from borrowing	145,151	191,731	126,232	201,362	74,171
Long-term debt and capital leases, net of sinking funds	21,609	957,114	784,624	675,394	493,830
Shareholder's equity (deficiency)	570,092	(206,277)	(92,010)	(32,988)	43,520

Notes:

1. Certain comparative figures have been restated to conform with the presentation adopted for the current year.
2. Full-time equivalent employees is calculated by dividing actual labour hours worked by the standard hours in a work year (1,827).
3. AEQs (Automobile EQuivalents) are a standard-length traffic unit. Underheight and overheight vehicles are each one AEQ; buses and trucks are each three AEQs.
4. Financial information is presented on a consolidated basis (includes BC Ferries' wholly-owned subsidiary, Catamaran Ferries International Inc. (CFI)) except for operating expenses (BC Ferries only).

FINANCIAL

THE 1999/2000 FISCAL YEAR WAS A YEAR OF TRANSITION, AS THE corporation was placed on a sound financial footing with the decision by the shareholder (the government of British Columbia) to remove $1.076 billion of the corporation's debt. This action, along with the decision to transfer funds from the shareholder's contributed surplus to cover the accumulated deficit, positions the corporation well for the future. In 1999/2000, the government also increased its subsidy to the corporation by reallocating a portion of the provincial motor fuel tax. As part of the financial restructuring of the corporation, the province has tabled legislative changes to dedicate 1.25 cents of the motor fuel tax. This revenue is anticipated to be $72 million in the 2000/01 fiscal year.

The 1999/2000 financial statements also reflect a net loss of $299.2 million for the fiscal year. The most significant element of this loss was the decision to write down the PacifiCat fleet by $240 million.

REVENUES

Toll revenues increased marginally from $291.8 million to $292.4 million, primarily as a result of an increase in foot passenger traffic.

Revenues from catering, gift shop and vending activities increased by 4.8 per cent to $55.1 million. This $2.5 million increase was primarily due to an increase in food sales as a result of passenger growth and the introduction of branded programs.

Other revenues from parking and miscellaneous sources total $8.4 million, compared with $8.6 million from the previous fiscal year.

The federal contract provided revenues of $22.2 million for the fiscal year. These funds flow to BC Ferries under a service contract for the provision of ferry services on the coast of British Columbia. The annual payment increases with the Vancouver Consumer Price Index. As mentioned above, the provincial government restructured its subsidy, which is now based on an allocation of the provincial motor fuel tax. This revenue provided $64.9 million in 1999/2000, up sharply from the $24.0 million grant in the previous year.

Albert J. Sevele: Vancouver 1961
34.82m • 56 Gross Tons
16 Cars/133 Passengers

Nimpkish: Vancouver 1973
33.93m • 266.00 Gross Tons
16 Cars/133 Passengers

Klitso: Vancouver 1972
47.46m • 347 Gross Tons
26 Cars/146 Passengers

Quadra Queen II: Vancouver 1969
49.64m • 771 Gross Tons
30 Cars/294 Passengers

Kahloke: Vancouver 1973
54.75m • 466 Gross Tons
30 Cars/195 Passengers

Skeena Queen: Vancouver 1997
110m • 2,682 Gross Tons
100 Cars/600 Passengers

Pacificat Discovery: Vancouver 1999
122.5m • 9,022 Gross Tons
250 Cars/1,000 Passengers

Pacificat Explorer: Vancouver 1999
122.5m • 9,022 Gross Tons
250 Cars/1,000 Passengers

Expenses

Costs for salaries, wages and benefits declined by $3 million, or 1.3 per cent, as a direct result of:

reduction in administrative staff

PacifiCat training costs provided for in the previous year and not required this year.

Fuel costs increased by $10.6 million, or 33.1 per cent, to $42.6 million. This was caused by an average fuel price increase of 27 per cent, and an increase in fuel consumption of five per cent associated with the introduction of the fast ferries.

Other costs rose by $8.6 million, or 7.9 per cent, primarily as a result of a write-down of Queen of Victoria ($5.3 million) in anticipation of its sale, and engine problems on Skeena Queen ($1.6 million).

Queen of Victoria: Victoria 1962
129.92m • 9,369 Gross Tons
286 Cars/1,360 Passengers

Spirit of British Columbia: Victoria 1993
167.57m • 18,747 Gross Tons
470 Cars/2,100 Passengers

Board of Directors

Michael Francis, CHAIR
Peter Dhillon, VICE CHAIR
Patricia McKim
Russell Moore
Ron Moss
Ray Whitehead

Kwuna: Victoria 1978
71.64m • 347 Gross Tons
26 Cars/150 Passengers

Tachek: Vancouver 1969
49.56m • 751 Gross Tons
30 Cars/277 Passengers

Executive Management

AS AT MARCH 31, 2000

Bob Lingwood
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

Capt. Mike Carter
EXECUTIVE VICE PRESIDENT,
OPERATIONS & CUSTOMER SERVICES

Rob Clarke
VICE PRESIDENT,
FINANCE AND CORPORATE SERVICES

Derek Johnston
VICE PRESIDENT,
HUMAN RESOURCES

Capt. Harry Martin
VICE PRESIDENT, CORPORATE SAFETY,
STANDARDS AND INTERNAL AUDIT

Ellis Meads
VICE PRESIDENT,
ENGINEERING & CONSTRUCTION

Mark Stefanson
VICE PRESIDENT,
CORPORATE COMMUNICATIONS

Pat Morris
CORPORATE SECRETARY

Mike Martin
SPECIAL PROJECTS DIRECTOR,
FAST FERRY PROGRAM

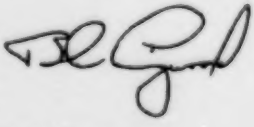
Len Roueche
DIRECTOR,
CORPORATE AND STRATEGIC PLANNING

MANAGEMENT REPORT

THE CONSOLIDATED FINANCIAL STATEMENTS OF THE BRITISH Columbia Ferry Corporation have been prepared by management in accordance with accounting principles that are appropriate for the corporation and generally accepted in Canada. A precise determination of many assets and liabilities is dependent upon future events and consequently, the preparation of periodic consolidated financial statements necessarily involved the use of management's judgment in establishing the estimates and approximations used. The consolidated financial statements have, in management's opinion, been properly prepared within the framework of the accounting policies summarized in the notes to the consolidated financial statements.

Management depends upon a system of internal control in order to provide reasonable assurance, on a cost-effective basis, that financial information used in preparing consolidated financial statements is reliable. The system of internal control is monitored by internal auditors and the corporation's external auditors also independently perform such tests of the system of internal control as they consider necessary for the purpose of expressing their opinion on the consolidated financial statements. The Audit and Finance Committee, which consists of directors who are not employees, meets regularly with management, the internal auditors and the external auditors to satisfy itself that the corporation's system of internal control is adequate.

Management is responsible for all of the information in this annual report. Financial information presented elsewhere in this annual report is consistent with that in the consolidated financial statements.



Bob Lingwood
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Robert P. Clarke, CGA
VICE PRESIDENT
FINANCE AND CORPORATE SERVICES

AUDITORS'

To the Lieutenant-Governor in Council, Province of British Columbia

We have audited the consolidated balance sheet of British Columbia Ferry Corporation as at March 31, 2000 and the consolidated statement of operations and retained earnings (deficit) and the consolidated cash flow statement for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

KPMG LLP
Chartered Accountants
Victoria, Canada

May 5, 2000

CONSOLIDATED BALANCE SHEET
AS AT MARCH 31, 2000

Current Assets (Note 3)	$ 41,067	$ 27,493
Capital Assets (Note 4)	652,887	848,304
Total Assets	$ 693,954	$ 875,797
Current Liabilities (Note 5)	$ 95,351	$ 118,294
Deferred Employee Obligations (Note 6)	6,902	6,666
Long-Term Debt (Note 7)	318	933,309
Obligations Under Capital Leases (Note 8)	21,291	23,805
Total Liabilities	123,862	1,082,074
Share Capital (Note 9)	6,851	6,851
Contributed Surplus (Note 10)	563,241	250,401
Retained Earnings (Deficit)	–	(463,529)
Total Shareholder's Equity (Deficiency)	570,092	(206,277)
Total Liabilities and Shareholder's Equity (Deficiency)	$ 693,954	$ 875,797
Commitments (Note 4)		
Contingent Liabilities (Note 18)		

See accompanying notes to financial statements.

On behalf of the board:

Michael Francis
CHAIR

Ron Moss
DIRECTOR

CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS (DEFICIT) YEAR ENDED MARCH 31, 2000

Tolls	$ 292,355	$ 291,763
Catering and other income	63,535	61,183
Federal operating contract (Note 11)	22,150	22,040
	378,040	374,986
Salaries, wages and benefits	227,448	230,481
Fuel	42,577	31,979
Repairs and maintenance	31,306	30,167
Other (Note 12)	34,616	27,632
Costs of catering goods sold	20,725	19,722
Materials and supplies	23,380	23,358
Insurance, taxes and utilities	8,753	9,254
	388,805	372,593
	(10,765)	2,393
Net financing expense (Note 13)	(53,094)	(42,394)
Amortization	(60,233)	(50,266)
Provision for write-down of high-speed ferries (Note 14)	(240,000)	(48,000)
	(364,092)	(138,267)
Provincial grant	–	24,000
Motor fuel tax (Note 15)	64,913	–
	(299,179)	(114,267)
	(463,529)	(349,262)
	762,708	–
	$ –	$ (463,529)

See accompanying notes to financial statements.

CONSOLIDATED CASH FLOW STATEMENT

YEAR ENDED MARCH 31, 2000

Net loss for the year	$ (299,179)	$ (114,267)
Amortization and other non-cash charges:		
Write-down of high-speed ferries	240,000	48,000
Amortization	60,233	50,266
Other non-cash charges	3	(501)
Net change in non-cash working capital	(23,982)	9,333
	(22,925)	(7,169)
Capital asset additions	(114,610)	(166,634)
Capital asset disposals	20	32
	(114,590)	(166,602)
Proceeds from debt financing	145,151	191,731
Long-term debt repayment	(4,347)	(14,900)
Capital lease payments	(2,323)	(2,116)
	138,481	174,715
	966	944
	27	(917)
	$ 993	$ 27

See accompanying notes to financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2000

(tabular amounts expressed in thousands)

The corporation was incorporated under the *Ferry Corporation Act* on June 30, 1976, and commenced operations on January 1, 1977, after acquiring the assets and assuming the operations of the B.C. Ferry Authority. The shares of the corporation are held by the Minister of Finance as representative of Her Majesty the Queen in right of the Province of British Columbia.

In fiscal 1999/00, the Province announced a financial restructuring plan to ensure the long-term sustainability of the corporation. Following this announcement, legislation was introduced to permit the relinquishment of up to $1.08 billion in debt and to confirm the replacement of the annual provincial operating grant (1998/99 - $24 million) with an operating subsidy provided through the ongoing dedication of 1.25 cents per litre from taxes collected under the *Motor Fuel Tax Act*. The financial statements reflect the impact of this restructuring plan as a transfer from long-term debt to contributed surplus, which resulted from the non-recourse transfer of $1.076 billion of long-term debt to the Province of British Columbia.

The restructuring plan also authorized the sale of the assets of the corporation's wholly owned subsidiary, Catamaran Ferries International Inc. (CFI), and the three aluminum catamaran ferries constructed by CFI under contract to the corporation. Significant provisions have been made in the financial statements to reflect the impact of this decision (Note 15).

As part of its financial restructuring, the corporation has also received authorization from its shareholder, the Province of British Columbia, to eliminate the accumulated deficit of $762.7 million at March 31, 2000, through a transfer of contributed surplus (Note 10).

As required in Section 8(7) of the *Ferry Corporation Act*, the financial statements of the corporation are prepared in accordance with generally accepted accounting principles. Significant accounting policies adopted in the preparation of these financial statements are as follows:

Basis of Consolidation

The consolidated financial statements include the accounts of the corporation and its wholly owned subsidiary, Catamaran Ferries International Inc. (CFI). CFI was incorporated under the *Company Act* of British Columbia and commenced operations on April 1, 1996. The purpose of CFI was to construct fast ferries for the corporation and to develop the related technology for application in the domestic and international market. CFI is dependent upon the corporation for the financing of all of its current activities.

Inventories

Inventories, which consist of materials and supplies, catering stores and fuel, are valued at the lower of weighted-average cost and current replacement cost.

(tabular amounts expressed in thousands)

Capital Assets

Certain ships, berths, buildings and equipment were transferred from the Province in prior years. These assets were recorded at cost or estimated amortized replacement value at the dates of acquisition.

The costs of major replacements, additions, extensions and improvements, including direct overhead and financing costs, are capitalized in the accounts. The costs of maintenance, repairs, refit and minor renewals or replacements are expensed as incurred.

Contributions from the Province towards the acquisition of capital assets have been deducted from the related capital assets with any amortization calculated on the net amount.

Amortization of Capital Assets

Capital assets, including assets recorded under capital leases, are amortized using the straight-line method based upon the useful lives of the assets as determined by the Corporation. Useful lives are as follows: ships - 40 years, berths - 10 to 30 years, buildings - 20 years, equipment - five to 20 years.

Risk Management Contracts

The corporation works closely with its fiscal agent, the Ministry of Finance of the Province of British Columbia, when using various derivative financial instruments to reduce its exposure to fluctuations in interest rates and foreign currency exchange rates. It does not hold or issue financial instruments for trading purposes.

Motor Fuel Tax

The proceeds from the ongoing dedication of taxes collected under the *Motor Fuel Tax Act* are recorded in income as an operating subsidy.

Contributed Surplus

Contributed surplus represents the difference between the recorded value of certain assets received from the Province of British Columbia in prior years and their cost to the corporation, plus the amount of debt transferred to the Province in 1999/00 (Note 10). The carrying amount has been reduced by the transfer to eliminate the accumulated deficit of the corporation at March 31, 2000.

Measurement Uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

(tabular amounts expressed in thousands)

	2000	1999
Cash and investments	$ 993	$ 27
Accounts receivable and prepaid expenses	23,987	14,490
Inventories	16,087	12,976
	$ 41,067	$ 27,493

Accounts receivable and prepaid expenses include a deposit of $1.3 million (1999 – $0.7 million) relating to the corporation's surplus position in the British Columbia Long Term Disability Plan. This plan is administered by the Public Service Employee Relations Commission (PSERC). The value of any surplus position or unfunded liability is established for PSERC by an actuarial valuation performed every three years. An actuarial valuation was performed as at March 31, 1999.

	2000			1999
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Ships owned	$ 575,676	$ 309,604	$ 266,072	$ 277,673
Ships under capital lease	48,482	26,255	22,227	23,176
Berths, buildings and equipment	523,455	292,512	230,943	258,425
Land	24,580	-	24,580	24,580
Construction in progress	7,565	-	7,565	264,450
	$1,179,758	$ 628,371	551,387	$ 848,304
Assets held for resale including construction in progress			101,500	-
			$ 652,887	$ 848,304

Contractual commitments for capital assets under construction at March 31, 2000, totalled $15.9 million.

	2000	1999
Accounts payable and accrued liabilities	$ 79,777	$ 98,208
Deferred revenue	13,046	13,416
Current portion of long-term obligations	2,528	6,670
	$ 95,351	$ 118,294

(tabular amounts expressed in thousands)

	2000	1999
Accrued sick leave liability	$ 2,478	$ 2,877
Workers' compensation claims liability	4,424	3,789
	$ 6,902	$ 6,666

The value of the accrued sick leave liability was based upon an actuarial valuation performed by Leong & Associates Actuaries and Consultants Inc.

The value of the workers' compensation claims liability was based upon an actuarial valuation performed by AON Consulting Inc.

Under the *Ferry Corporation Act* as at March 31, 2000, the corporation may borrow a maximum of $1.35 billion. Subsequent to March 31, 2000, the corporation's debt cap was reduced to a maximum of $150 million.

	2000	1999
Promissory note, effective interest rate of 12.08%, due September 9, 2003	$ 14,758	$ 14,758
Bonds	–	455,953
Short-term loans	–	523,731
	14,758	994,442
Less: sinking funds	14,437	53,042
current sinking fund payments	–	4,347
deferred borrowing costs	3	3,744
	$ 318	$ 933,309

Long-term debt reflects the impact of the relinquishment of debt as part of the financial restructuring plan authorized by the Province (Note 1). The promissory note is guaranteed by the Province of British Columbia.

(tabular amounts expressed in thousands)

The corporation has obligations under capital leases for vehicles and *M.V. Queen of Surrey*. Total future minimum lease payments are as follows for fiscal years ending in:

2001	$ 4,546
2002	4,486
2003	4,486
2004	4,486
2005	4,486
2006 and subsequent	10,140
	32,630
Less: interest at implicit rates between 7.07% and 8.69%	8,733
	23,897
Less: current portion	2,528
deferred charges	78
	$ 21,291

The obligation under capital lease for *M.V. Queen of Surrey* is guaranteed by the Province of British Columbia.

The corporation also has an obligation under capital lease for the *M.V. Queen of Oak Bay*. The $34.0 million (1999 - $36.6 million) obligation is fully offset by a debenture from the Province of British Columbia. The debenture and the capital lease mature in December 2006.

	2000	1999
Authorized: 1,000,000 shares without par value with a maximum consideration of $100,000,000		
Issued: 68,512 shares	$ 6,851	$ 6,851

Contributed surplus reflects the financial restructuring discussed in Note 1:

	2000	1999
Balance at beginning of year	$ 250,401	$ 250,401
Transfer of debt to the Province	1,075,548	–
Transfer to eliminate accumulated deficit	(762,708)	–
Balance at end of year	$ 563,241	$ 250,401

(tabular amounts expressed in thousands)

The corporation received revenue from the Government of Canada of $22.2 million (1999 - $22.0 million) pursuant to a contract for the provision of ferry and coastal freight and passenger services in the waters of British Columbia.

	2000	1999
Travel and other	$ 11,219	$ 9,777
Advertising and professional fees	11,032	11,537
Communications and computer	4,461	5,099
Loss on disposal of assets	7,904	1,219
	$ 34,616	$ 27,632

The 1999/00 loss on disposal of assets includes a provision of $5.3 million to write down the *M.V. Queen of Victoria* to its anticipated selling price.

The corporation incurred financing costs as follows:

	2000	1999
Short-term loans (Note 7)	$ 20,790	$ 19,447
Long-term debt (Note 7)	41,655	33,988
Capital leases (Note 8)	2,184	2,375
	64,629	55,810
Capitalized as cost of construction	(7,876)	(10,295)
Interest earned on short-term funds	(176)	(143)
Interest earned on sinking funds (Note 7)	(3,483)	(2,978)
Net financing expense	$ 53,094	$ 42,394

On a cash basis, the corporation paid $60.0 million (1999 - $51.0 million) in interest and received $0.2 million (1999 - $0.1 million) in interest income.

(tabular amounts expressed in thousands)

During fiscal 1999/00, the corporation took possession of its second aluminum catamaran ferry constructed by its wholly owned subsidiary, Catamaran Ferries International Inc. (CFI). The corporation is committed to its contract with CFI to complete the construction of a third vessel. The estimated total cost of the three high-speed ferries is $408.0 million.

In March 2000, the corporation and its shareholder, the Province of British Columbia, decided to sell the three aluminum catamaran ferries on the open market. The current market for these vessels is not readily determinable, as the technology in vessels of this size and capacity is relatively new, and no comparable vessels have been sold in the secondary market. Generally accepted accounting principles requires that a write-down should be recorded in the financial period in which the need for the write-down is identified. During fiscal 1999/00, a write-down of costs has been provided for. The write-down of $240.0 million applies to all three vessels, including the one under construction.

In 1998/99 a write-down of $48.0 million was made to reduce the carrying value of the fast ferries to an amount that reflected the then anticipated net cash flows from their intended use.

In fiscal 1999/00, the corporation received an operating subsidy from the Province of British Columbia of $64.9 million from taxes collected under the *Motor Fuel Tax Act*.

The corporation utilizes Crown land for terminals and highway access without the payment of rent or property taxes. In 1991, the corporation initiated a program of payments to municipalities in lieu of property taxes for terminals located within municipal boundaries.

The corporation engages in transactions with other provincial government agencies, departments and Crown corporations, notably British Columbia Hydro and Power Authority, British Columbia Buildings Corporation and Information Technology Services Division of the Ministry of Finance, on normal commercial terms.

The Minister of Finance, as the corporation's fiscal agent, arranges financing at the corporation's request. The corporation paid fees totalling $2.4 million (1999 - $0.4 million) in the year for these fiscal agent services.

On March 31, 2000, the corporation reacquired the *M.V. Queen of Burnaby* from Victoria Line Ltd., a provincially owned corporation, for $2.8 million.

(tabular amounts expressed in thousands)

The corporation and its employees contribute to the Public Service Pension Plan in accordance with the *Pension (Public Service) Act*. The Superannuation Commission of the Province of British Columbia administers the plan, including the payment of pension benefits on behalf of employers and employees to whom the act applies. The plan is a defined benefit pension plan. The financial position of the plan is described in the financial statements of the plan included in the Public Accounts of the Province. The Province of British Columbia has statutory responsibility for any unfunded liability. The most recent actuarial evaluation has determined that the plan is in a surplus position.

The corporation, in conducting its usual business activities, is involved in various legal proceedings and litigation, the outcome of which is indeterminable. It is the corporation's policy to carry adequate insurance to minimize the financial risk associated with such matters. Management is of the opinion that the aggregate net liability, if any, of these proceedings and litigation would not be significant to the corporation. Any additional future costs or recoveries, which differ from the accrued amounts, will be recorded as expenses or revenues as determined.

Certain comparative figures have been reclassified to conform with the presentation adopted for the current year.

British Columbia Ferry Corporation
Fleet House
1112 Fort Street
Victoria, British Columbia V8V 4V2

Telephone: (250) 381-1401

Facsimile: (250) 381-5452
(Individual sites and offices may have their own facsimile lines.)

Web site: http://www.bcferries.com

Reservations: (250) 386-3431 (in Victoria)

Or toll-free from anywhere in British Columbia
1-888-BCFERRY (1-888-223-3779)

Catamaran Ferries International Inc.
122 - 980 West 1st Street
North Vancouver, British Columbia V7P 1A4
Canada

Telephone: (604) 903-4200

Facsimile: (604) 903-4222

Web site: http://cfi-fastferry.com

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